Stakeholder Briefing

Proposed Adjustments to Agriculture Quarantine Inspection (AQI) Program User Fees

U.S. Department of Agriculture
Animal and Plant Health Inspection Service

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Presentation Objective and Agenda

Objective: To provide a detailed overview of the proposed adjustments to AQI program user fees.

Topics

- What is the AQI program, why it is necessary, and who is involved
- Costing methodology used to determine fees
- Activity based costing (ABC) model design and considerations
- Results and findings from the user fee review
- Using cost to inform the fee-setting process
- Proposed fee adjustments

What is the AQI program and why is it necessary?

- Help prevent unintentional introductions of foreign animal diseases, plant pests and pathogens, and intentional acts of agroterrorism
- Accomplished through risk assessment and analysis, pest identification, treatment, policy, as well as inspections of international passengers, commercial vessels, trucks, aircraft and railcars at U.S. ports of entry
- Enables continued, safe agricultural production, confidence in U.S. agriculture, and a stable U.S. economy
- Ensures an abundant, high-quality, safe, and varied food supply, strengthens the marketability of U.S. agriculture in domestic and international commerce, and contributes to the preservation of the global environment

Who is involved?

- APHIS and the Department of Homeland Security's Customs and Border Protection (CBP)
- APHIS provides scientific guidance, training, pest identification, risk analysis and other services
- CBP is responsible for inspection and clearance operations at 328 ports of entry nationwide in air, land and sea environments
- APHIS is the U.S. Government's executive agency for the AQI program:
  - Section 2509(a) of the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990 (21 U.S.C. 136a) authorizes APHIS to collect user fees for certain AQI services.

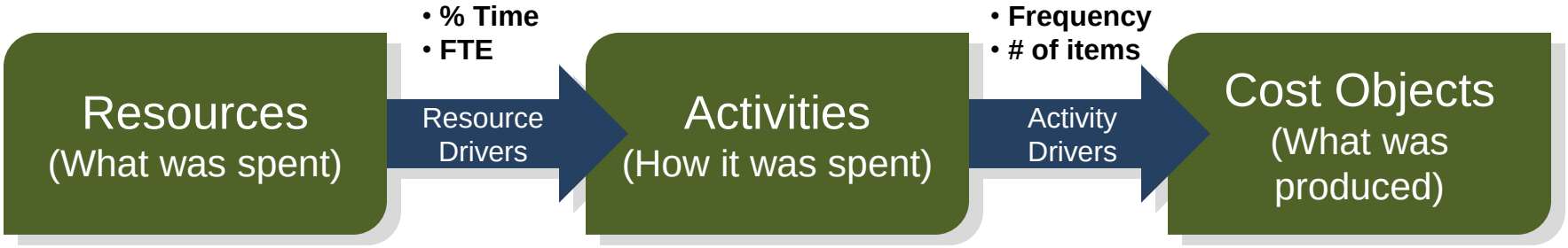
AQI Costing Methodology

- Used activity based costing (ABC) methodology to determine the FY10 full cost of major business activities and services/outputs.

- Costing methodology included:
  - Conducting APHIS labor activity survey to estimate amount of time spent on program and support activities.
  - Using activity cost information for Agriculture and general support activities from CBP cost model.
  - Using CBP and APHIS workload data to assign activity costs to outputs/services (e.g., number of inspections, number of pest IDs).

ABC Methodology Baseline Cost Information

- **Perform full cost analysis** of AQI services including direct, indirect, overhead, inter-agency and imputed costs recorded in the APHIS and CBP financial statements.
- Uses cause-and-effect relationships for more accurate costing.
- Widely accepted methodology in public and private sector; recognized by FASAB as an appropriate methodology for managerial cost accounting.
- Used FY10 data as baseline and updated for FY11.
- Model produces unit cost data for user fee setting and performance analysis; provides “what-if” capabilities for analyzing resource scenarios.



Model Design Considerations

- National-level model that is
  - rigorous and defensible
  - flexible to support diverse information needs
  - repeatable
  - transparent in tracing costs across dimensions
- Requirements driven
  - Primary purpose is fee setting
  - Considered other management uses
- Balanced to work with available data

Data Sources

- Financial data
  - APHIS financial system
    - AQI program costs
    - APHIS overhead and support
  - Cost by activity from CBP cost model
- APHIS workforce labor survey
- Workload data for outputs and drivers (use both APHIS and CBP information systems)

Summary Findings from Study

- FY2010 AQI program costs were approximately $860M
- Includes cost of services funded by fees and appropriation
- Fee revenue did not cover the cost of fee services in total

Fee Service	FY2010 Cost	FY2010 Revenue	Gain / (Loss)
Air Passengers	$275,298,670	$410,169,768	$134,871,098
Commercial Aircraft	$171,763,486	$49,984,756	($121,778,730)
Commercial Truck	$71,520,384	$13,864,727	($57,655,657)
Commercial Vessel	$113,415,308	$25,510,420	($87,904,888)
Commercial Rail	$4,738,663	$7,917,885	$3,179,222
Total	**$636,736,511**	**$507,447,556**	**($129,288,955)**
Non-Fee Services *	$223,614,379		
Total	**$860,350,890**		

* Services for which no fee is currently charged; examples include private vehicles, pedestrians and bus passengers.

- Some of the losses were due to caps for vessels and trucks (transponders)
- Information used for projections and policy decisions

Summary Findings from Study

- CBP incurred approximately $677M (79%) of AQI program costs
- Air passenger inspection was approximately one third of program costs overall and the largest cost for CBP
- Commercial aircraft represents the greatest cost for APHIS
- Non-fee services accounted for more than 25% of AQI program costs

Fee Service	APHIS Cost	CBP Cost	Total Cost	Percent
Air Passengers	$25,713,808	$249,584,862	$275,298,670	32%
Commercial Aircraft	$64,253,082	$107,510,404	$171,763,486	20%
Commercial Rail	$967,839	$3,770,824	$4,738,663	1%
Commercial Truck	$16,341,747	$55,178,636	$71,520,384	8%
Commercial Vessel	$43,627,013	$69,788,296	$113,415,308	13%
Non-Fee Services*	$32,652,570	$190,961,809	$223,614,379	26%
Total	**$183,556,058**	**$676,794,832**	**$860,350,890**	**100%**

* Services for which no fee is currently charged; examples include private vehicles, pedestrians and bus passengers.

Cost Projections

- Started with baseline cost model resources and added:
  - Pay and inflation through FY2016
  - Costs for post-FY10 CBP initiatives, including journeyman upgrade
  - Costs for post-FY10 APHIS AQI initiatives
- Activity and output structure same as baseline cost model
- Driver relationships remain constant
- Output (workload) changes per industry and other sources
- Fees are set based on actual workload and projected inflation.
  - Allows for a single rate without adjustments through 2016

Cost Implications for Fee Setting

- Projected total AQI program costs:
  - FY14: $948.9 million
  - FY15: $957.6 million
  - FY16: $966.4 million
- Need to recover costs associated with fee services and have fee revenue from each fee service cover the associated costs
- Consider establishing new fees
- Use GAO criteria to assess options
  - Efficiency
  - Equity
  - Revenue adequacy
  - Administrative burden

CBP Costs Not Covered by Fee Revenue

- In 2014 approximately $231M in CBP costs are associated with services for which no fee is currently charged
- CBP appropriation must also cover
  - AQI program operating loss
  - APHIS costs associated with non-fee services

Service	Amount ($M)
Private Vehicle	$143
Pedestrian	$38
Bus	$26
Private Aircraft	$13
Private Vessel	$5
Rail Passengers	$2
Military Clearance Operations	$4
Subtotal Non-Fee Services	***$231***
Program Operating Loss	$169
APHIS Costs Associated with Non-Fee Services *	$33
Total	**$433**

* APHIS costs not recovered because they are associated with non-fee services (e.g., pest identification for bus passengers). CBP receives less revenue because all APHIS costs must be covered by fee revenue.

Fees Considered But Not Included

- Costs are covered by appropriation, not other fees
- Considerations
  - Efficiency
  - Equity
  - Revenue adequacy
  - Administrative burden

Service	Amount ($M)
Private Vehicle	$143
Pedestrian	$38
Bus	$26
Private Aircraft	$13
Private Vessel	$5
Rail Passengers	$2
Subtotal Non-Fee Services	***$227***

Inflation (new)

Fee	2011 Actual Count	2012 Actual Count	Expected Changes (Annual)	2013	2014	2015	2016
Air passenger	78,901,506	77,255,476	3.60%	80,036,673	82,917,993	85,903,041	88,995,551
Sea passenger	12,931,271	13,532,465	3.15%	13,958,738	14,398,438	14,851,989	15,319,826
Rail passenger	276,722	276,855	-	276,855	276,855	276,855	276,855
Bus passenger	5,222,786	5,318,382	-1.69%	5,228,501	5,140,140	5,053,271	4,967,871
POV passenger	169,834,015	175,428,545	0.76%	176,761,802	178,105,192	179,458,791	180,822,678
Pedestrian	40,609,235	41,375,736	-3.49%	39,931,723	38,538,106	37,193,126	35,895,086
Commercial aircraft	700,644	719,251	3.60%	745,144	771,969	799,760	828,551
Commercial maritime cargo vessel	101,794	113,727	3.15%	117,309	121,005	124,816	128,748
Commercial truck	10,348,791	10,664,770	3.83%	11,073,231	11,497,335	11,937,683	12,394,897
Commercial cargo railcar	2,912,210	3,230,167	3.83%	3,353,882	3,482,336	3,615,710	3,754,191
Private aircraft	121,221	116,240	-	116,240	116,240	116,240	116,240
Private maritime vessel	80,529	80,949	-	80,949	80,949	80,949	80,949
Treatments	29,713	38,517	5.36%	40,582	42,757	45,048	47,463

Proposed Fees (existing)

Fee Service Activity	Current	Proposed
Air passenger	$ 5	$ 4
Commercial aircraft	70.75	225
Commercial maritime cargo vessel	496	825
Commercial truck	5.25	8
Commercial truck transponder	105	320
Commercial cargo railcar	7.75	2

Proposed Fees (new)

Fee Service Activity	Current	Proposed
Sea passenger	no fee	$ 2
Treatments	no fee	375

Change in Fees

Fee Service Activity	Proposed	Rate of Change
Air passenger	$ 4	-20%
Commercial aircraft	225	218%
Commercial maritime cargo vessel	825	71%
Commercial truck	8	52%
Commercial truck transponder	320	205%
Commercial cargo railcar	2	-74

- Used Activity Based Costing over previous method of fee calculations
  - Know the actual cost of activities related to fees
- Many years since the fees have been adjusted
  - Increased costs to address increased threats
  - Cumulative effect of inflation over the years
- Fees are set and will not have annual adjustments unless an emergency arises
  - Allows for better cost planning for industry
- Assured that there is no cross subsidization of fees

To submit a formal comment:

https://federalregister.gov/a/2014-09466

Questions?